

FinMan Acctg, 1e (Horngren)

Chapter 2: Recording Business Transactions

1) An account is the detailed record of the changes in a particular asset, liability, or stockholders' equity.

Answer: True False

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

2) A chart of accounts is the book (or printout) holding all of the company's accounts.

Answer: True False

Diff: 1 Page Ref: 62-63

Objective: 2-1

EOC Ref: TP2-1

3) A trial balance is the list of all a company's accounts along with their account numbers.

Answer: True False

Diff: 2 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

4) A journal is the chronological record of transactions.

Answer: True False

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-3

5) Debit means right and credit means left.

Answer: True False

Diff: 1 Page Ref: 60

Objective: 2-2

EOC Ref: S2-3

6) In the United States, we use double entry accounting, which means we record the dual effects of each transaction.

Answer: True False

Diff: 1 Page Ref: 64

Objective: 2-2

EOC Ref: E2-15

7) An asset account is increased by a debit.

Answer: True False

Diff: 1 Page Ref: 64

Objective: 2-2

EOC Ref: E2-15

8) A stockholders' equity account is increased by a debit.

Answer: True False

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: E2-16

- 9) The first step in recording a transaction in a journal is to identify each account affected and its type (asset, liability, and so forth).
Answer: True False
Diff: 1 Page Ref: 66
Objective: 2-3
EOC Ref: E2-18
- 10) When recording a transaction in a journal, the credit side is entered first, followed by the debit side.
Answer: True False
Diff: 1 Page Ref: 67
Objective: 2-3
EOC Ref: E2-18
- 11) The date of the transaction is one of the items included in a journal entry.
Answer: True False
Diff: 1 Page Ref: 67
Objective: 2-3
EOC Ref: E2-18
- 12) The journal entry presents only a part of the transaction. Information recorded in the ledger is necessary to complete the information about the transaction.
Answer: True False
Diff: 2 Page Ref: 67
Objective: 2-3
EOC Ref: E2-19
- 13) The process of copying from the journal to the ledger is called posting.
Answer: True False
Diff: 1 Page Ref: 67
Objective: 2-4
EOC Ref: E2-20
- 14) Expenses are increases in stockholders' equity by providing goods or services for customers.
Answer: True False
Diff: 1 Page Ref: 67
Objective: 2-4
EOC Ref: E2-20
- 15) The normal balance is the balance that appears on the same side as where increases are recorded either the debit side or the credit side.
Answer: True False
Diff: 1 Page Ref: 69
Objective: 2-4
EOC Ref: E2-19
- 16) An account that normally has a debit balance may occasionally have a credit balance.
Answer: True False
Diff: 1 Page Ref: 69
Objective: 2-4
EOC Ref: E2-19
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17) A balance sheet is an internal document used only by company insiders.

Answer: True False

Diff: 1 Page Ref: 77

Objective: 2-5

EOC Ref: E2-25

18) A trial balance will usually report total debits that are not equal to total credits.

Answer: True False

Diff: 1 Page Ref: 77

Objective: 2-5

EOC Ref: E2-19

19) The general public generally does not see a company's trial balance.

Answer: True False

Diff: 1 Page Ref: 77

Objective: 2-5

EOC Ref: E2-25

20) A trial balance summarizes a ledger by listing all the accounts with their balances.

Answer: True False

Diff: 1 Page Ref: 76

Objective: 2-5

EOC Ref: E2-25

21) Which of the following is the detailed record of the changes in a particular asset, liability, or stockholders' equity?

- A) Journal
- B) Trial balance
- C) Ledger
- D) Account

Answer: D

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

22) Which of the following is the book (or printout) holding all the accounts?

- A) Account
- B) Trial balance
- C) Journal
- D) Ledger

Answer: D

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-3

23) Which of the following is the chronological record of transactions?

- A) Ledger
- B) Account
- C) Journal
- D) Trial balance

Answer: C

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-3

24) Which of the following is a list of all the accounts with their balances?

- A) Journal
- B) Trial balance
- C) Ledger
- D) Account

Answer: B

Diff: 1 Page Ref: 60

Objective: 2-1

EOC Ref: S2-10

25) Which of the following accounts is NOT an example of an asset?

- A) Accounts Receivable
- B) Cash
- C) Building
- D) Notes Payable

Answer: D

Diff: 1 Page Ref: 60, 61

Objective: 2-1

EOC Ref: P2-30A

26) Which of the following accounts is NOT an example of a liability?

- A) Wages Payable
- B) Notes Payable
- C) Accounts Payable
- D) Accounts Receivable

Answer: D

Diff: 1 Page Ref: 61

Objective: 2-1

EOC Ref: P2-30A

27) Which of the following accounts is NOT an example of a stockholders' equity account?

- A) Dividends paid
- B) Common stock
- C) Revenue
- D) Cash

Answer: D

Diff: 1 Page Ref: 62

Objective: 2-1

EOC Ref: P2-30A

28) Accountants record transactions first in which of the following?

- A) Chart of accounts
- B) Trial balance
- C) Journal
- D) Ledger

Answer: C

Diff: 1 Page Ref: 66

Objective: 2-1

EOC Ref: E2-16

29) After initially recording a transaction, the data is then copied, or posted, to which of the following?

- A) Chart of accounts
- B) Ledger
- C) Trial balance
- D) Journal

Answer: B

Diff: 1 Page Ref: 67

Objective: 2-1

EOC Ref: E2-17

30) Which of the following accounts is an asset?

- A) Salary Expense
- B) Accounts Payable
- C) Service Revenue
- D) Prepaid Expenses

Answer: D

Diff: 2 Page Ref: 60, 61

Objective: 2-1

EOC Ref: P2-30A

31) Which of the following accounts is a liability?

- A) Accounts Payable
- B) Prepaid Expenses
- C) Salary Expense
- D) Service Revenue

Answer: A

Diff: 2 Page Ref: 61

Objective: 2-1

EOC Ref: P2-30A

32) Which of the following accounts is a stockholders' equity account?

- A) Accrued Liability
- B) Accounts Payable
- C) Prepaid Expense
- D) Retained earnings

Answer: D

Diff: 1 Page Ref: 62

Objective: 2-1

EOC Ref: P2-30A

33) The accounting process of copying a transaction from the journal to the ledger is which of the following?

- A) Journalizing
- B) Posting
- C) Proofing
- D) Footing

Answer: B

Diff: 1 Page Ref: 67

Objective: 2-1

EOC Ref: S2-9

- 34) A chart of accounts is which of the following?
- A) A list of all the accounts with their balances.
 - B) A book (or printout) holding all the accounts.
 - C) A list of all the accounts with their account numbers.
 - D) A chronological record of transactions.

Answer: C

Diff: 1 Page Ref: 62-63

Objective: 2-1

EOC Ref: TP2-1

- 35) Which of the following groups of accounts have a normal debit balance?
- A) Assets and expenses
 - B) Revenues and expenses
 - C) Liabilities and stockholders' equity
 - D) Assets and liabilities

Answer: A

Diff: 2 Page Ref: 69

Objective: 2-2

EOC Ref: S2-4

- 36) Which of the following accounts increase due to a credit?
- A) Cash
 - B) Common stock
 - C) Accounts Receivable
 - D) Both A and B increase when credited.

Answer: B

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

- 37) Which of the following accounts decrease due to a credit?
- A) Cash
 - B) Common stock
 - C) Accounts Payable
 - D) Both A and B decrease when credited.

Answer: A

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

- 38) Which of the following accounts increase due to a debit?
- A) Cash
 - B) Interest Payable
 - C) Prepaid Insurance
 - D) Both A and C increase when debited.

Answer: D

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

39) Which of the following accounts decrease due to a debit?

- A) Interest Payable
- B) Prepaid Insurance
- C) Cash
- D) Both A and B decrease when debited.

Answer: A

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

40) An owner invests \$20,000 in her new corporation by depositing the cash in the business's checking account.

Which of the following occurs?

- A) Cash is credited for \$20,000.
- B) Cash is debited for \$20,000.
- C) Common stock is debited for \$20,000.
- D) Both B and C.

Answer: B

Diff: 2 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

41) A business purchases equipment for cash of \$8,000. Which of the following occurs?

- A) Cash is credited for \$8,000.
- B) Cash is debited for \$8,000.
- C) Equipment is debited for \$8,000.
- D) Both A and C.

Answer: D

Diff: 2 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

42) A business makes a cash payment of \$12, 000 to a creditor. Which of the following occurs?

- A) Cash is credited for \$12, 000.
- B) Cash is debited for \$12, 000.
- C) Accounts payable is credited for \$12, 000.
- D) Both A and C.

Answer: A

Diff: 2 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

43) A business completes services for \$16,000 on account. Which of the following occurs?

- A) Cash is debited for \$16,000.
- B) Accounts receivable is debited for \$16,000.
- C) Service revenue is credited for \$16,000.
- D) Both B and C.

Answer: D

Diff: 2 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

44) A business pays \$500 cash for supplies. Which of the following occurs?

- A) Cash is debited for \$500.
- B) Accounts payable is credited for \$500.
- C) Supplies is debited for \$500.
- D) Both B and C.

Answer: C

Diff: 2 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

45) A business receives cash in payment of accounts receivable. Which of the following occurs?

- A) A liability is debited and a liability is credited.
- B) An asset is credited and a liability is debited.
- C) An asset is debited and an asset is credited.
- D) An asset is debited and a liability is credited.

Answer: C

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

46) A corporation pays dividends to its shareholders. Which of the following occurs?

- A) An asset is credited and a stockholders' equity account is debited.
- B) An asset is debited and a liability is credited.
- C) An asset is debited and a stockholders' equity account is credited.
- D) An asset is credited and a liability is debited.

Answer: A

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

47) A business borrows cash by issuing a note payable. Which of the following occurs?

- A) An asset is debited and a liability is credited.
- B) An asset is credited and a liability is debited.
- C) A liability is debited and a liability is credited.
- D) An asset is debited and an asset is credited.

Answer: A

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

48) A business makes a principal payment of cash on a note payable. The note payable was originally issued for the purchase of equipment. Which of the following occurs?

- A) An asset is debited and a liability is credited.
- B) A liability is debited and a liability is credited.
- C) An asset is credited and a liability is debited.
- D) An asset is debited and an asset is credited.

Answer: C

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

49) A business makes a cash payment of rent. Which of the following occurs?

- A) A liability is debited and an expense is credited.
- B) An asset is credited and a liability is debited.
- C) An asset is credited and an expense is debited.
- D) An asset is debited and a liability is credited.

Answer: C

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

50) A business makes a payment of \$1,200 on a note payable, consisting of a \$200 interest payment and a \$1,000 principal payment. Which of the following journal entries would be recorded?

- A) Cash is credited for \$1,000, Interest Expense is credited for \$200, and Notes Payable is debited for \$1,200.
- B) Notes Payable is credited for \$1,000, Cash is credited for \$200, and Interest Expense is debited for \$1,200.
- C) Cash is credited for \$1,200, Notes Payable is debited for \$1,000, and Interest Expense is debited for \$200.
- D) Notes Payable is credited for \$1,200, Cash is debited for \$1,000, and interest expense is debited for \$200.

Answer: C

Diff: 3 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

51) A business purchases equipment by paying cash of \$8,000 and issuing a note payable of \$12,000. Which of the following occurs?

- A) Cash is credited for \$8,000, Equipment is credited for \$20,000 and Notes Payable is debited for \$12,000.
- B) Cash is credited for \$8,000, Equipment is debited for \$20,000 and Notes Payable is credited for \$12,000.
- C) Cash is debited for \$8,000, Equipment is debited for \$12,000 and Notes Payable is credited for \$20,000.
- D) Cash is credited for \$8,000, Equipment is credited for \$12,000 and Notes Payable is debited for \$4,000.

Answer: B

Diff: 4 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

52) A journal entry includes which of the following items?

- A) Titles of the accounts debited and credited, along with the dollar amounts
- B) A brief explanation of the transaction
- C) Date of the transaction
- D) All of the above

Answer: D

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: S2-5

53) The first step of journalizing an entry is which of the following?

- A) Post the accounts to the ledger.
- B) Identify each account affected and its type.
- C) Determine whether each account is increased or decreased
- D) Record the transaction in the journal, including a brief explanation.

Answer: B

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: S2-5

- 54) Which of the following is the order of steps to journalize an entry?
- A) Identify each account affected, determine increase or decrease in each account, record the transaction
 - B) Identify each account affected, record the transaction, determine increase or decrease in each account
 - C) Record the transaction, identify each account affected, determine increase or decrease in each account
 - D) Determine increase or decrease in each account, identify each account affected, record the transaction

Answer: A

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: S2-5

- 55) Which of the following is the last step of journalizing an entry?
- A) Post the accounts to the ledger.
 - B) Identify each account affected and its type.
 - C) Record the transaction in the journal, including a brief explanation.
 - D) Determine whether each account is increased or decreased.

Answer: D

Diff: 1 Page Ref: 66, 67

Objective: 2-3

EOC Ref: S2-5

- 56) Which of the following journal entries would be recorded if a business purchased \$200 of supplies on account?

A) Accounts Payable	200	
Supplies		200
B) Supplies	200	
Accounts Payable		200
C) Supplies	200	
Cash		200
D) Cash	200	
Supplies		200

Answer: B

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

- 57) Which of the following journal entries would be recorded if a business received cash of \$400 immediately after it performed services?

A) Service Revenue	400	
Cash		400
B) Service Revenue	400	
Accounts Payable		400
C) Cash	400	
Service Revenue		400
D) Service Revenue	400	
Accounts Receivable		400

Answer: C

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

58) Which of the following journal entries would be recorded if a business paid cash of \$600 on account?

Supplies had been purchased on account last month.

- | | | |
|---------------------|-----|-----|
| A) Cash | 600 | |
| Accounts Payable | | 600 |
| B) Accounts Payable | 600 | |
| Cash | | 600 |
| C) Cash | 600 | |
| Supplies | | 600 |
| D) Accounts Payable | 600 | |
| Supplies | | 600 |

Answer: B

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

59) Which of the following journal entries would be recorded if Jane Brown formed a corporation by depositing cash of \$6, 000 in the corporation's bank account?

- | | | |
|---------------------|-------|-------|
| A) Cash | 6,000 | |
| Common stock | | 6,000 |
| B) Accounts Payable | 6,000 | |
| Cash | | 6,000 |
| C) Common stock | 6,000 | |
| Cash | | 6,000 |
| D) Common stock | 6,000 | |
| Accounts Payable | | 6,000 |

Answer: A

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

60) Which of the following journal entries would be recorded if a business purchased equipment for \$3, 000 cash?

- | | | |
|------------------|-------|-------|
| A) Cash | 3,000 | |
| Equipment | | 3,000 |
| B) Equipment | 3,000 | |
| Cash | | 3,000 |
| C) Cash | 3,000 | |
| Accounts Payable | | 3,000 |
| D) Equipment | 3,000 | |
| Accounts Payable | | 3,000 |

Answer: B

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

61) Which of the following journal entries would be recorded if a business received cash of \$1000 on account for services performed at an earlier date?

- | | | |
|------------------------|-------|-------|
| A) Cash | 1,000 | |
| Service Revenue | | 1,000 |
| B) Accounts Receivable | 1,000 | |
| Service Revenue | | 1,000 |
| C) Cash | 1,000 | |
| Accounts Receivable | | 1,000 |
| D) Service Revenue | 1,000 | |
| Accounts Receivable | | 1,000 |

Answer: C

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

62) Which of the following journal entries would be recorded if a business purchased equipment for \$2, 500 cash and supplies for \$450 cash?

- | | | |
|---------------------|-------|-------|
| A) Equipment | 2,950 | |
| Cash | | 2,500 |
| Supplies | | 450 |
| B) Cash | 2,500 | |
| Equipment | 450 | |
| Accounts Receivable | | 2,950 |
| C) Cash | | 2,950 |
| Equipment | | 2,500 |
| Supplies | | 450 |
| D) Equipment | 2,500 | |
| Supplies | 450 | |
| Cash | | 2,950 |

Answer: D

Diff: 3 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

63) Which of the following journal entries would be recorded if a business performed services for \$400 cash and \$1,000 on account?

- | | | |
|---------------------|-------|-------|
| A) Cash | 1,400 | |
| Accounts Receivable | | 1,000 |
| Service Revenue | | 400 |
| B) Cash | 400 | |
| Accounts Receivable | 1,000 | |
| Service Revenue | | 1,400 |
| C) Service Revenue | 1,000 | |
| Cash | 400 | |
| Accounts Receivable | | 1,400 |
| D) Service revenue | 1,400 | |
| Cash | | 1,000 |
| Accounts Payable | | 400 |

Answer: B

Diff: 3 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

64) A business makes a payment of \$1, 200 on a note payable, consisting of a \$200 interest payment and a \$1,000 principal payment. Which of the following journal entries would be recorded?

- | | | |
|------------------|-------|-------|
| A) Notes Payable | 1,000 | |
| Interest Expense | 200 | |
| Cash | | 1,200 |
| B) Cash | 1,200 | |
| Notes Payable | | 1,000 |
| Interest Expense | | 200 |
| C) Notes Payable | 1,200 | |
| Cash | | 1,000 |
| Interest Expense | | 200 |
| D) Cash | 1,000 | |
| Notes Payable | | 1,200 |
| Interest Expense | | 200 |

Answer: A

Diff: 4 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

65) A business purchases equipment by paying \$8, 000 cash and issuing a note payable of \$12, 000. Which of the following journal entries would be recorded?

- | | | |
|---------------|-----------|-----------|
| A) Equipment | 20,000 | |
| Notes Payable | | 12,000 |
| Cash | | 8,000 |
| B) Cash | \$8, 000 | |
| Notes Payable | \$12, 000 | |
| Equipment | | \$20, 000 |
| C) Cash | 8,000 | |
| Notes Payable | 4,000 | |
| Equipment | | 12,000 |
| D) Equipment | 8,000 | |
| Notes Payable | 4,000 | |
| Cash | | 12,000 |

Answer: A

Diff: 4 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

66) Which of the following is the first step in the normal flow of accounting data from the journal to the ledger?

- A) Posting
- B) Preparation of trial balance
- C) Transaction analysis
- D) Journalization

Answer: C

Diff: 1 Page Ref: 66, 67

Objective: 2-4

EOC Ref: E2-18, 19

- 67) Which of the following sequences represents the normal flow of accounting data from the journal to the ledger?
- A) Transactions occur, Source documents are prepared, Transaction analysis, Transaction is journalized and posted
 - B) Source documents are prepared, Transaction analysis, Transaction is journalized and posted, Transactions occur
 - C) Transaction analysis, Transaction is journalized and posted, Transactions occur, Source documents are prepared
 - D) Transactions occur, Transaction analysis, Transaction is journalized and posted, Source documents are prepared

Answer: A

Diff: 2 Page Ref: 66, 67

Objective: 2-4

EOC Ref: E2-16, 17

- 68) Which of the following arithmetic formulas is the expanded accounting equation?
- A) $\text{Assets} + \text{Revenues} - \text{Expenses} = \text{Liabilities} + \text{Common stock} + \text{Retained earnings} - \text{Dividends}$
 - B) $\text{Assets} = \text{Liabilities} + \text{Common stock} + \text{Retained earnings} - \text{Dividends} + \text{Revenues} - \text{Expenses}$
 - C) $\text{Assets} + \text{Liabilities} + \text{Common stock} + \text{Retained earnings} = \text{Dividends} + \text{Revenues} - \text{Expenses}$
 - D) $\text{Assets} + \text{Liabilities} = \text{Common stock} + \text{Retained earnings} - \text{Dividends} + \text{Revenues} - \text{Expenses}$

Answer: B

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

- 69) Which of the following statements about revenue is correct?
- A) Revenues decrease stockholders' equity, so a revenue account's normal balance is a credit balance.
 - B) Revenues decrease stockholders' equity, so a revenue account's normal balance is a debit balance.
 - C) Revenues increase stockholders' equity, so a revenue account's normal balance is a debit balance.
 - D) Revenues increase stockholders' equity, so a revenue account's normal balance is a credit balance.

Answer: D

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

70) A business purchased \$200 of supplies on account and recorded the following journal entry:

Supplies	200	
Accounts payable		200

Which of the following sets of ledger accounts reflect the posting of this transaction?

- A)

Supplies	Accounts Payable
200	200
- B)

Supplies	Accounts Payable
200	200
- C)

Supplies	Accounts Payable
200	200
- D)

Supplies	Accounts Payable
200	200

Answer: C

Diff: 1 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

Case 2.1

The following transactions have been journalized and posted to the proper accounts.

1. Mark Call invested \$7,000 cash in his new design services corporation in exchange for stock.
2. The corporation paid the first month's rent with \$700.
3. The corporation purchased equipment by paying \$2,000 down and executing a note payable for \$4,500.
4. The corporation purchased supplies for \$850 cash.
5. The corporation billed a client for \$4,000 of design services completed
6. The corporation received \$3,000 of the account for the completed services.

71) Refer to Case 2.1. What is the balance in Cash?

- A) \$7,850
- B) \$6,450
- C) \$8,450
- D) \$8,150

Answer: B

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

72) Refer to Case 2.1. What is the balance in Accounts Receivable?

- A) \$8,500
- B) \$1,000
- C) \$7,000
- D) \$4,000

Answer: B

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

73) Refer to Case 2.1. What is the balance in Notes Payable?

- A) \$1,000
- B) \$4,500
- C) \$7,000
- D) \$4,000

Answer: B

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

74) Refer to Case 2.1. What is the balance in Service Revenue?

- A) \$1,000
- B) \$3,000
- C) \$4,000
- D) \$3,150

Answer: C

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

75) Refer to Case 2.1. What is the balance in Rent Expense?

- A) \$3,150
- B) \$3,000
- C) \$700
- D) \$2,700

Answer: C

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

76) McKenna Corporation purchases equipment for a cash down payment of \$10,000 and a note payable of \$30,000. Which of the following journal entries is correctly recorded using the standard format?

- | | | | |
|----|--------------|--------|--------|
| A) | Cash | | 10,000 |
| | Equipment | 40,000 | |
| | Note Payable | | 30,000 |
| B) | Cash | 10,000 | |
| | Note Payable | 30,000 | |
| | Equipment | | 40,000 |
| C) | Cash | | 10,000 |
| | Note Payable | | 30,000 |
| | Equipment | 40,000 | |
| D) | Equipment | 40,000 | |
| | Cash | | 10,000 |
| | Note Payable | | 30,000 |

Answer: D

Diff: 2 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

77) Which of the following is true about the process of posting?

- A) Entries should be posted in account number order.
- B) The process of posting transfers the journalized entries to their respective accounts in the ledger.
- C) The process of posting transfers accumulated debits and credits to the trial balance.
- D) None of the above.

Answer: B

Diff: 2 Page Ref: 66, 67

Objective: 2-4

EOC Ref: E2-16, 17

78) The following entries were made by the accountant of Patel Pastries, Inc. during its first month of operations.

1. James Patel, the sole shareholder, deposited \$3,000 in the company's new checking account in exchange for stock.
2. Patel Pastries, Inc. paid the first month's rent of \$400.
3. Patel Pastries, Inc. purchased equipment by signing a note payable of \$11,000.
4. Cash sales for the month were \$4,500.
5. Patel Pastries, Inc. purchased cooking supplies for \$1,400.

After the accountant posts these entries to the general ledger, what is the balance in the cash account?

- A) \$7,500
- B) \$7,100
- C) \$5,700
- D) \$16,700

Answer: C

Diff: 3 Page Ref: 68

Objective: 2-4, 2-5

EOC Ref: E2-16, 17

79) The following entries were made by the accountant of Patel Pastries Inc. during its first month of operations.

- a. James Patel, the sole shareholder, deposited \$3,000 in the company's new checking account in exchange for stock.
- b. Patel Pastries Inc paid the first month's rent of \$400.
- c. Patel Pastries Inc purchased equipment by signing a note payable of \$11,000.
- d. Cash sales for the month were \$4,500.
- e. Patel Pastries Inc purchased cooking supplies for \$1,400.

After the accountant posts these entries to the general ledger, what is the balance in the retained earnings account?

- A) \$4,900
- B) \$7,100
- C) \$3,000
- D) \$4,100

Answer: D

Diff: 3 Page Ref: 68

Objective: 2-4, 2-5

EOC Ref: E2-16, 17

80) Which of the following is a method used to detect errors when the two columns of the trial balance are NOT equal?

- A) Compute the difference in the columns and search the trial balance for a transposition if the difference is evenly divisible by 9.
- B) Compute the difference in the columns, divide the difference between total debits and total credits by 2 and search for the amount in the trial balance.
- C) Compute the difference in the columns and search the trial balance for the missing amount.
- D) All of the above are suggested methods for detecting errors.

Answer: D

Diff: 2 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

81) A journal entry for a \$75 payment for rent expense was posted as a debit to salary expense and a credit to cash. This error will cause which of the following conditions on the trial balance?

- A) The trial balance will be in balance □ the sum of the credits will equal the sum of the debits.
- B) The sum of the debits will exceed the sum of the credits by \$75.
- C) The sum of the debits will exceed the sum of the credits by \$150.
- D) The sum of the credits will exceed the sum of the debits.

Answer: A

Diff: 3 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

82) A journal entry for a \$250 payment on account was posted as a \$520 debit to accounts payable and a \$250 credit to cash. This error will cause which of the following conditions on the trial balance?

- A) The sum of the credits will exceed the sum of the debits.
- B) The sum of the debits will exceed the sum of the credits by \$250.
- C) The sum of the debits will exceed the sum of the credits by \$270.
- D) The trial balance will be in balance · the sum of the credits will equal the sum of the debits.

Answer: C

Diff: 3 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

83) A trial balance usually lists accounts in which of the following orders?

- A) Assets, liabilities, revenues, expenses, stockholders' equity
- B) Assets, expenses, liabilities, revenues, stockholders' equity
- C) Assets, revenues, liabilities, expenses, stockholders' equity
- D) Assets, liabilities, stockholders' equity, revenues, expenses

Answer: D

Diff: 1 Page Ref: 76, 77

Objective: 2-5

EOC Ref: E2-16, 17

84) When is a trial balance usually prepared?

- A) After each entry is journalized
- B) At the end of each accounting period
- C) At the end of each day
- D) When the business is liquidated

Answer: B

Diff: 2 Page Ref: 76, 77

Objective: 2-5

EOC Ref: E2-16, 17

85) Which of the following errors could be detected by examining a trial balance?

- A) A journal entry for a \$250 payment on account was posted as a \$520 debit to accounts payable and a \$250 credit to cash.
- B) A journal entry for a \$250 payment on account was not posted.
- C) A journal entry for a \$75 payment for rent expense was posted twice.
- D) A journal entry for a \$75 payment for rent expense was posted as a debit to salary expense and a credit to cash.

Answer: A

Diff: 2 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

86) A trial balance is prepared and the sum of the debits equals the sum of the credits. Which of the following conclusions is correct?

- A) All of the transactions have been correctly posted.
- B) The accounting equation is mathematically correct.
- C) All errors have been found and corrected.
- D) All of the account balances are correct.

Answer: B

Diff: 2 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

87) Which of the following statements correctly describes a trial balance?

- A) A trial balance is the first step in the accounting cycle.
- B) A trial balance is also known as a balance sheet.
- C) A trial balance is a list of all accounts with their balance.
- D) A trial balance is also known as the chart of accounts.

Answer: C

Diff: 1 Page Ref: 76, 77

Objective: 2-5

EOC Ref: E2-16, 17

- 88) Which of the following is true of a trial balance?
- A) A trial balance contains all of the information to prepare the statement of retained earnings.
 - B) A trial balance contains totals for debits and credits.
 - C) A trial balance contains totals for revenues and expenses.
 - D) A trial balance contains totals for assets and liabilities.

Answer: B

Diff: 1 Page Ref: 76, 77

Objective: 2-5

EOC Ref: E2-16, 17

- 89) Equipment is purchased for cash. Which of the following would be true?
- A) There is an increase in total assets.
 - B) There is a decrease in both total assets and total liabilities.
 - C) There is an increase in total assets and a decrease in total liabilities.
 - D) There is no effect on total assets.

Answer: D

Diff: 2 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17

- 90) Services were performed on account. Which of the following would be true?
- A) Total assets decrease, net income increases, and stockholders' equity increases.
 - B) Net income decreases, stockholders' equity increases, and total assets increase.
 - C) Total assets increase, net income increases, and stockholders' equity increases.
 - D) Net income decreases, total assets decrease, and stockholders' equity decreases.

Answer: C

Diff: 2 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17

- 91) A corporation pays dividends. Which of the following would be true?
- A) Net income would decrease.
 - B) Total assets would increase.
 - C) There would be no effect on total assets.
 - D) Stockholders' equity would decrease.

Answer: D

Diff: 2 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17

- 92) A utility bill is received. It will be paid in the following accounting period. Which of the following would be true as a result of the receipt of the utility bill?
- A) Net income will increase.
 - B) Stockholders' equity will decrease.
 - C) Total liabilities will decrease.
 - D) There will be no effect on total liabilities.

Answer: B

Diff: 3 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17

93) A building is purchased by signing a mortgage note. Which of the following would be true?

- A) Total liabilities decrease.
- B) There is no effect on stockholders' equity.
- C) Stockholders' equity is increased.
- D) Total assets decrease.

Answer: B

Diff: 2 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17

94) A \$250 payment on account was posted as a debit to Accounts Receivable and a credit to Accounts Payable. Which of the following conditions will exist?

- A) Accounts Payable will be understated.
- B) Stockholders' equity will be overstated.
- C) Accounts Receivable will be overstated.
- D) Cash will be overstated.

Answer: C

Diff: 3 Page Ref: 77

Objective: 2-5

EOC Ref: E2-27

95) A receipt of \$300 cash on account was recorded as a \$500 debit to accounts payable and a \$500 credit to cash. Which of the following conditions will exist?

- A) Cash is overstated by \$500.
- B) Cash is overstated by \$800.
- C) Cash is understated by \$800.
- D) Cash is understated by \$500.

Answer: C

Diff: 3 Page Ref: 77

Objective: 2-5

EOC Ref: E2-27

96) The credit side of an entry to record the payment of rent was not posted. Which of the following conditions will exist?

- A) Expenses will be overstated.
- B) Assets will be overstated.
- C) Assets will be understated.
- D) Liabilities will be understated.

Answer: B

Diff: 3 Page Ref: 77

Objective: 2-5

EOC Ref: E2-27

97) A _____ is a list of all the accounts with their balances.

Answer: trial balance

Diff: 2 Page Ref: 76, 77

Objective: 2-1

EOC Ref: S2-10

98) _____ is the accounting process of copying a transaction from the journal to the ledger.

Answer: Posting

Diff: 2 Page Ref: 67

Objective: 2-1

EOC Ref: S2-8

- 99) The most widely used form of account is called the _____ because its vertical line divides the account into its left and right sides, with the title at the top.
Answer: T-Account
Diff: 2 Page Ref: 64
Objective: 2-1
EOC Ref: S2-6
- 100) Debit refers to the _____ side of the account and credit refers to the _____ side.
Answer: left, right
Diff: 2 Page Ref: 64
Objective: 2-1
EOC Ref: S2-2
- 101) For assets and expenses, a(n) _____ is an increase to the account.
Answer: Debit
Diff: 1 Page Ref: 65
Objective: 2-2
EOC Ref: S2-7
- 102) For liabilities and revenues, a(n) _____ is an increase to the account.
Answer: Credit
Diff: 1 Page Ref: 65
Objective: 2-2
EOC Ref: S2-7
- 103) Accounting uses the _____ system, which means that we record the dual effects of each transaction.
Answer: Double-entry
Diff: 1 Page Ref: 64
Objective: 2-2
EOC Ref: S2-6
- 104) The amount remaining in an account at the end of an accounting period is the _____.
Answer: Balance
Diff: 1 Page Ref: 65
Objective: 2-2
EOC Ref: S2-9
- 105) The first place that transactions are recorded in the accounting system is the _____.
Answer: journal
Diff: 1 Page Ref: 66
Objective: 2-2
EOC Ref: E2-18
- 106) Transactions are posted from the _____ to the _____.
Answer: journal, ledger
Diff: 1 Page Ref: 67
Objective: 2-2
EOC Ref: E2-19
-

107) Define the following terms.

- a. Account
- b. Ledger
- c. Journal
- d. Trial balance
- e. Chart of accounts

Answer: a. The detailed record of the changes in a particular asset, liability, or stockholders' equity
b. The book (or printout) holding all the accounts
c. The chronological record of transactions
d. A list of all the accounts with their balances
e. A list of all the accounts with their account numbers

Diff: 2 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

108) Briefly define and describe how an account is used in the accounting process.

Answer: An account is the detailed record of the changes in a particular asset. After a transaction is recorded in the journal, it is posted to an account in the ledger. After all transactions are recorded and posted, the balances of the accounts are recorded on the trial balance.

Diff: 2 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

109) Briefly define and describe how a journal is used in the accounting process.

Answer: The journal is the chronological record of transactions. The journal is where transactions are first recorded. After a transaction is recorded in the journal, it is posted to an account in the ledger. After all transactions are recorded and posted, the balances of the accounts are recorded on the trial balance.

Diff: 2 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

110) Briefly define and describe how a ledger is used in the accounting process.

Answer: A ledger is a book (or printout) holding all the accounts. After a transaction is recorded in the journal, it is posted to an account in the ledger. After all transactions are recorded and posted, the balances of the accounts are recorded on the trial balance.

Diff: 2 Page Ref: 60

Objective: 2-1

EOC Ref: S2-2

111) For each of the following items, indicate whether a debit (dr.) or credit (cr.) causes the account to decrease.

_____ Accounts Receivable	_____ Salary Payable
_____ Accounts Payable	_____ Building
_____ Equipment	_____ Supplies
_____ Common stock	_____ Interest Payable
_____ Notes Payable	_____ Furniture

Answer: cr Accounts Receivable dr Salary Payable
dr Accounts Payable cr Building
cr Equipment cr Supplies
dr Common stock dr Interest Payable
dr Notes Payable cr Furniture

Diff: 2 Page Ref: 65
Objective: 2-2
EOC Ref: S2-5

112) For each of the following items, indicate the type of account (asset, liability, stockholders' equity) and whether a debit (dr.) or credit (cr.) causes the account to increase.

_____ Accounts receivable	_____ Salary payable
_____ Accounts payable	_____ Building
_____ Equipment	_____ Supplies
_____ Common stock	_____ Interest payable
_____ Notes payable	_____ Furniture

Answer: Asset, dr. Accounts receivable Liability, cr. Salary payable
Liability, cr. Accounts payable Asset, dr. Building
Asset, dr. Equipment Asset, dr. Supplies
Stockholders' equity, cr. Common stock Liability, cr. Interest payable
Liability, cr. Notes payable Asset, dr. Furniture

Diff: 3 Page Ref: 65
Objective: 2-2
EOC Ref: S2-5

113) For each of the following items, indicate whether a debit (dr.) or credit (cr.) causes the account to decrease.

_____ Cash	_____ Salary expense
_____ Service revenue	_____ Notes payable
_____ Land	_____ Supplies expense
_____ Dividends paid	_____ Interest expense
_____ Notes receivable	_____ Furniture

Answer: cr Cash cr Salary expense
dr Service revenue dr Notes payable
cr Land cr Supplies expense
cr Dividends paid cr Interest expense
cr Notes receivable cr Furniture

Diff: 3 Page Ref: 65
Objective: 2-2
EOC Ref: S2-5

114) For each of the following items, indicate the type of account (asset, liability, stockholders' equity, revenue, expense) and whether a debit (dr.) or credit (cr.) causes the account to increase.

_____ Cash	_____ Salary expense
_____ Service revenue	_____ Notes payable
_____ Land	_____ Supplies expense
_____ Dividends paid	_____ Interest expense
_____ Notes receivable	_____ Furniture

Answer: Asset, dr. _____ Cash Expense, dr. _____ Salary expense
Revenue, cr. _____ Service revenue Liability, cr. _____ Notes payable
Asset, dr. _____ Land Expense, dr. _____ Supplies expense
Stockholders' equity, dr. _____ Dividends paid Expense, dr. _____ Interest expense
Asset, dr. _____ Notes receivable Asset, dr. _____ Furniture

Diff: 4 Page Ref: 65
Objective: 2-2
EOC Ref: S2-5

115) List and explain the three steps to record a transaction.

Answer: 1. Identify each account affected and its type (asset, liability, or equity).
2. Determine whether each account is increased or decreased, using the rules of debit and credit.
3. Record the transaction in the journal, including a brief explanation. The debit side of the entry is entered first. Total debits should always equal total credits.

Diff: 2 Page Ref: 66, 67
Objective: 2-3
EOC Ref: S2-5

116) Owens Company purchased equipment for a cash down payment of \$4, 000 and a note payable of \$5, 000. Explain the three steps in recording this transaction.

Answer: 1. The accounts affected by this transaction are Equipment (an asset), Cash (an asset), and Notes payable (a liability).
2. Equipment increases by \$9, 000 (a debit), cash decreases by \$4, 000 (a credit), and Notes payable increases by \$5, 000 (a credit).
3. Equipment 9,000
Cash 4,000
Notes payable 5,000

Diff: 3 Page Ref: 66, 67
Objective: 2-3
EOC Ref: S2-5

117) Prepare journal entries, in good form, for the following transactions.

- a. Ellen Rutledge invested \$3,000 cash in her new architectural services corporation.
- b. The corporation paid the first month's rent with \$800.
- c. The corporation purchased equipment by paying \$1,000 down and executing a note payable for \$3,500.
- d. The corporation purchased supplies for \$350 cash.
- e. The corporation billed a client for \$2,300 of architectural services completed
- f. The corporation received the \$2,300 for the completed services.

Answer:

Date	Accounts	Debit	Credit
a.	Cash		3,000
	Common stock		3,000
b.	Rent Expense	800	
	Cash		800
c.	Equipment	4,500	
	Cash		1,000
	Notes payable		3,500
d.	Supplies	350	
	Cash		350
e.	Accounts Receivable	2,300	
	Service Revenue		2,300
f.	Cash		2,300
	Accounts Receivable		2,300

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

118) Selected entries from Vineyard's Equipment Repair, Inc. are outlined below. Write an explanation for each of the entries.

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
a.	Cash		5,000
	Common stock		5,000
b.	Rent Expense	400	
	Cash		400
c.	Equipment	6,300	
	Cash		6,300
d.	Supplies	680	
	Cash		680
e.	Accounts Receivable	1,500	
	Cash		500
	Service Revenue		2,000

- Answer: a. Stockholders invested \$5, 000 cash in the new repair services business.
 b. Vineyard's Equipment Repair, Inc. paid the first month's rent with \$400.
 c. Vineyard's Equipment Repair, Inc. purchased equipment for \$6, 300.
 d. Vineyard's Equipment Repair, Inc. purchased supplies for \$680 cash.
 e. Vineyard's Equipment Repair, Inc. completed services for \$500 cash and \$1, 500 on account.

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

119) Refer to the following transactions:

- a. Ellen Rutledge invested \$3,000 cash in her new architectural services corporation.
- b. The corporation paid the first month's rent with \$800.
- c. The corporation purchased equipment by paying \$1,000 down and executing a note payable for \$3,500.
- d. The corporation purchased supplies for \$350 cash.
- e. The corporation billed a client for \$2,300 of architectural services completed
- f. The corporation received the \$2,300 for the completed services.

Post the transactions to the following T-accounts.

<u>Cash</u>	<u>Accounts Receivable</u>	<u>Supplies</u>	<u>Equipment</u>
<u>Notes Payable</u>	<u>Common stock</u>	<u>Service Revenue</u>	<u>Rent Expense</u>

Answer:

<u>Cash</u>	<u>Accounts Receivable</u>	<u>Supplies</u>	<u>Equipment</u>
a. 3000 b. 800 f. 2300 c. 1000 d. 350	e. 2300 f. 2300	d. 350	c. 4500
<u>Notes Payable</u>	<u>Common stock</u>	<u>Service Revenue</u>	<u>Rent Expense</u>
c. 3500	a. 3000	e. 2300	b. 800

Diff: 2 Page Ref: 67
Objective: 2-4
EOC Ref: E2-19

120) List the four steps in the flow of accounting data from the journal to the ledger.

- Answer:
1. Transactions occur.
 2. Source documents are prepared.
 3. Transactions are analyzed.
 4. Transactions are journalized and posted.

Diff: 2 Page Ref: 66, 67
Objective: 2-4
EOC Ref: E2-16, 17

121) Define the following terms:

- a. Journalize
- b. Post
- c. Normal balance
- d. Revenues
- e. Expenses

Answer: a. Record a transaction in the journal in dr./cr. format, including a brief explanation
b. Transfer information from the journal to the ledger
c. The side of an account, debit or credit, where an increase is normally recorded
d. Increases in stockholders' equity by providing goods or services to customers
e. Decreases in equity from using up assets or increasing liabilities in the course of operations

Diff: 2 Page Ref: 66-68

Objective: 2-4

EOC Ref: S2-9

122) For each of the following items, indicate whether the normal balance is a debit (dr.) or credit (cr.)

_____ Cash	_____ Salary expense
_____ Service revenue	_____ Notes payable
_____ Land	_____ Supplies expense
_____ Dividends paid	_____ Interest expense
_____ Notes receivable	_____ Furniture

Answer:

_____ dr _____ Cash	_____ dr _____ Salary expense
_____ cr _____ Service revenue	_____ cr _____ Notes payable
_____ dr _____ Land	_____ dr _____ Supplies expense
_____ dr _____ Dividends paid	_____ dr _____ Interest expense
_____ dr _____ Notes receivable	_____ dr _____ Furniture

Diff: 3 Page Ref: 69

Objective: 2-4

EOC Ref: S2-3

123) Thermo Company is a heating and air conditioning service corporation. On December 31, 2007, after its first month of business, Thermo Company had the following balances in its accounts, listed alphabetically.

Accounts receivable	4,100
Accounts payable	22,000
Advertising expense	1,600
Building	17,000
Cash	????
Equipment	1,800
Dividends paid	1,800
Common stock	45,000
Land	67,000
Note payable	58,000
Salary expense	1,800
Service revenue	62,000
Supplies	2,900
Utilities expense	4,200

Determine the balance in the cash account and prepare a trial balance using proper format.

Answer: Thermo Company
Trial Balance
December 31, 2007

	Debit	Credit
Cash	84,800	
Accounts receivable	4,100	
Supplies	2,900	
Equipment	1,800	
Building	17,000	
Land	67,000	
Accounts payable		22,000
Note payable		58,000
Common stock		45,000
Dividends paid	1,800	
Service revenue		62,000
Advertising expense	1,600	
Salary expense	1,800	
Utilities expense	4,200	
	<u>\$187,000</u>	<u>\$187,000</u>

Diff: 2 Page Ref: 78, 79
Objective: 2-5
EOC Ref: E2-26

124) For the following transactions, prepare journal entries in good form and prepare a trial balance for the month ending December 31, 2007.

- a. Caleb McKinney invested \$4,000 cash in his new business, McKinney Consulting, Inc. in exchange for stock.
- b. McKinney Consulting, Inc. paid the first month's rent with \$500.
- c. McKinney Consulting, Inc. purchased equipment by paying \$1,000 down and executing a note payable for \$4,500.
- d. McKinney Consulting, Inc. purchased supplies for \$500 cash.
- e. McKinney Consulting, Inc. billed a client for \$2,000 of architectural services completed
- f. McKinney Consulting, Inc. received the \$2,000 for the completed services.

Answer:

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
a.	Cash		4,000
	Common stock		4,000
b.	Rent Expense	500	
	Cash		500
c.	Equipment	5,500	
	Cash		1,000
	Notes payable		4,500
d.	Supplies	500	
	Cash		500
e.	Accounts Receivable	2,000	
	Service Revenue		2,000
f.	Cash	2,000	
	Accounts Receivable		2,000

Diff: 4 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

125) The following transactions have been journalized and posted to the proper accounts as of June 30, 2007. Prepare a trial balance in good form.

- a. Edward Wilson invested \$8,000 cash in his new landscaping corporation in exchange for stock.
- b. The corporation paid the first month's rent with \$300.
- c. The corporation purchased equipment by paying \$2,000 down and executing a note payable for \$3,000.
- d. The corporation purchased supplies for \$200 cash.
- e. The corporation billed a client for \$1,000 of design services completed
- f. The corporation received \$750 of the account for the completed services.
- g. The corporation paid dividends of \$2,000.

Answer: Wilson Landscaping Corporation
 Trial Balance
 June 30, 2007

	Debit	Credit
Cash	4,250	
Accounts Receivable	250	
Supplies	200	
Equipment	5,000	
Note payable		3,000
Common stock		8,000
Dividends paid	2,000	
Service revenue		1,000
Rent expense	300	
	<u>\$12,000</u>	<u>\$12,000</u>

Diff: 4 Page Ref: 69-77
 Objective: 2-5
 EOC Ref: E2-18, 19

126) The following errors have been made in posting transactions from the journal to the ledger. Indicate whether or not these errors would cause the totals of debits and credits to be out of balance on the trial balance.

		In Balance	Out of Balance
a.	Dividends of \$600 paid were recorded as a debit to retained earnings and a credit to cash.		
b.	Services rendered on account for \$300 were recorded as services rendered for cash of \$300.		
c.	A payment of \$200 on account was recorded as a debit to cash and a credit to accounts payable.		
d.	A cash purchase of supplies for \$300 was recorded as a debit to supplies for \$300 and a debit to cash for \$300.		
e.	A cash purchase of supplies for \$400 was recorded as a debit to supplies and a credit to accounts receivable for \$400.		
f.	A \$200 payment to employees for salaries was posted as a debit to utilities expense and a credit to cash.		
g.	Services rendered for \$200 cash were recorded twice in the journal and posted twice to the ledger.		

Answer:

	In Balance	Out of Balance
a.	X	
b.	X	
c.	X	
d.		X
e.	X	
f.	X	
g.	X	

Diff: 2 Page Ref: 78, 79

Objective: 2-5

EOC Ref: E2-26

127) A chart of accounts is the list of all a company's accounts along with their account numbers.

Answer: True False

Diff: 1 Page Ref: 62-63

Objective: 2-1

EOC Ref: TP2-1

128) An asset account is increased by a credit.

Answer: True False

Diff: 1 Page Ref: 65

Objective: 2-2

EOC Ref: S2-5

129) The first step in recording a transaction in a journal is to determine whether each account is increased or decreased, using the rules of debit and credit.

Answer: True False

Diff: 1 Page Ref: 66, 67

Objective: 2-3

EOC Ref: S2-5

130) Revenues are increases in stockholders' equity by providing goods or services to customers.

Answer: True False

Diff: 1 Page Ref: 68

Objective: 2-4

EOC Ref: E2-16, 17

131) A trial balance is an internal document used only by company insiders.

Answer: True False

Diff: 1 Page Ref: 76, 77

Objective: 2-5

EOC Ref: E2-16, 17

132) Which of the following accounts is an example of a liability?

- A) Service revenue
- B) Building
- C) Accounts receivable
- D) Notes payable

Answer: D

Diff: 1 Page Ref: 61

Objective: 2-1

EOC Ref: P2-30A

133) A business receives a cash payment for services rendered. Which of the following occurs?

- A) An asset is debited and a revenue account is credited.
- B) An asset is credited and a liability is debited.
- C) An asset is debited and a liability is credited.
- D) An asset is debited and a revenue account is debited.

Answer: A

Diff: 2 Page Ref: 67, 68

Objective: 2-2

EOC Ref: S2-5

134) Which of the following journal entries would be recorded if a business purchased \$200 of supplies by paying cash?

- | | | |
|---------------------|-----|-----|
| A) Cash | 200 | |
| Supplies | | 200 |
| B) Accounts payable | 200 | |
| Supplies | | 200 |
| C) Supplies | 200 | |
| Cash | | 200 |
| D) Supplies | 200 | |
| Accounts payable | | 200 |

Answer: C

Diff: 2 Page Ref: 66, 67

Objective: 2-3

EOC Ref: E2-18

135) Which of the following statements about expenses is correct?

- A) Expenses increase stockholders' equity, so an expense account's normal balance is a credit balance.
- B) Expenses decrease stockholders' equity, so an expense account's normal balance is a credit balance.
- C) Expenses increase stockholders' equity, so an expense account's normal balance is a debit balance.
- D) Expenses decrease stockholders' equity, so an expense account's normal balance is a debit balance.

Answer: D

Diff: 2 Page Ref: 77

Objective: 2-4

EOC Ref: E2-16, 17

136) A bill is sent to a client for services rendered. It will be paid in the following accounting period. Which of the following would be true as a result of mailing the bill to the client?

- A) Stockholders' equity will decrease.
- B) Total liabilities will decrease.
- C) There will be no effect on total assets.
- D) Net income will increase.

Answer: D

Diff: 3 Page Ref: 77

Objective: 2-5

EOC Ref: E2-16, 17